

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2007

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Elk Horn-Kimballton Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2006 Election)		
Tom Cannon	President	2008
Doug Parker	Board Member	2008
Tom Wall	Board Member	2006
Peggy Leader	Board Member	2007
Jerry Schrader	Board Member	2007
Board of Education (After September 2006 Election)		
Tom Cannon	President	2008
Doug Parker	Board Member	2008
Tamie Fahn	Board Member	2009
Peggy Leader	Board Member (Resigned)	2007
Mark Smith	Board Member (Appointed)	2007
Jerry Schrader	Board Member	2007
School Officials		
Casey Berlau	Superintendent	2007
Lori Robertson	District Secretary/ Treasurer (Resigned November 2006)	2007
Tami Jacobsen	District Secretary/ Treasurer (Appointed December 2006)	2007
Sue Seitz	Attorney	2007

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(a professional corporation)
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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Elk Horn-Kimballton Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Elk Horn-Kimballton Community School District, Elk Horn, Iowa as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Elk Horn-Kimballton Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 3, 2008 on our consideration of the Elk Horn-Kimballton Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Members American Institute & Iowa Society of Certified Public Accountants

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 34 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Elk Horn-Kimballton Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2006 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nolte, Cornman & Johnson PC
NOLTE, CORNMAN & JOHNSON, P.C.

March 3, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Elk Horn-Kimballton Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$2,271,248 in fiscal 2006 to \$2,406,135 in fiscal 2007, while General Fund expenditures decreased from \$2,407,056 in fiscal 2006 to \$2,380,285 in fiscal 2007. This resulted in a increase in the District's General Fund balance from \$371,035 in fiscal 2006 to a balance of \$396,885 in fiscal 2007.
- The increase in General Fund revenues was attributable to increases in local source revenues as well as unrestricted state grant revenues in fiscal 2007. The decrease in expenditures was due primarily to a decrease in instructional expenses during the year. The increase in revenues coupled with the decrease in total General Fund expenses ensured the gain in General Fund balance.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Elk Horn-Kimballton Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Elk Horn-Kimballton Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Elk Horn-Kimballton Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1

Elk Horn-Kimballton Community School District Annual Financial Report

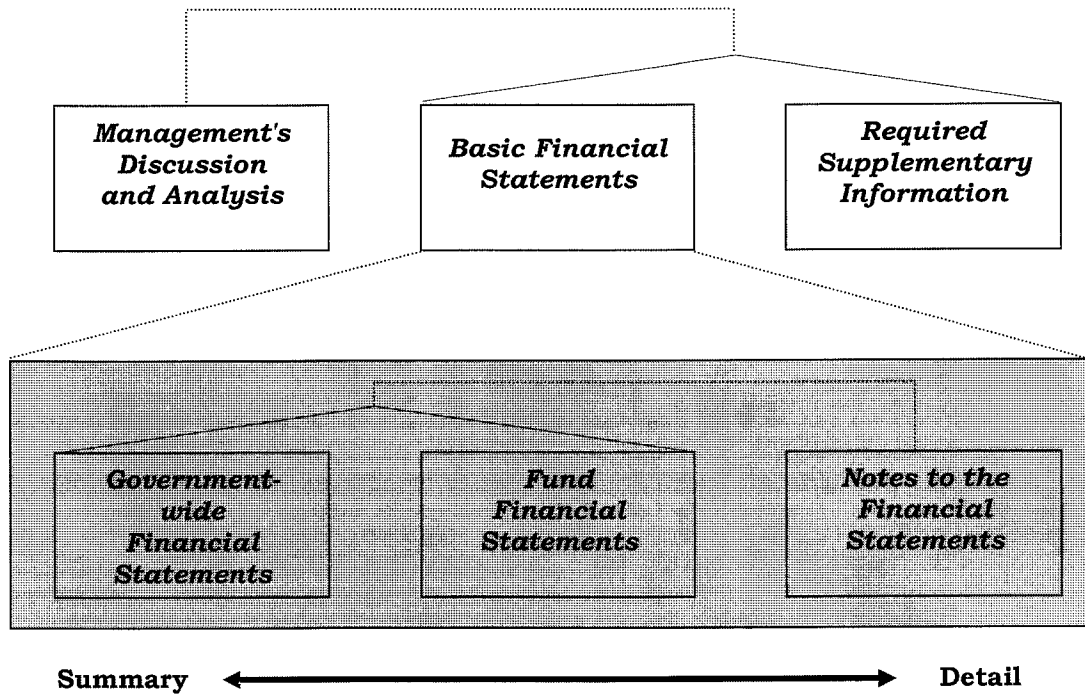


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects Fund, and Debt Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. This fund includes the Private-Purpose Trust Fund and Agency Fund.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Funds - These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include the statement of fiduciary net assets and the statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at year end June 30, 2007 compared to June 30, 2006.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 2,088,797	1,757,724	42,920	34,870	2,131,717	1,792,594	18.92%
Capital assets	3,669,200	3,720,487	12,399	15,446	3,681,599	3,735,933	-1.45%
Total assets	5,757,997	5,478,211	55,319	50,316	5,813,316	5,528,527	5.15%
Long-term obligations	1,366,632	1,502,464	0	0	1,366,632	1,502,464	-9.04%
Other liabilities	1,118,381	910,541	10,400	1,060	1,128,781	911,601	23.82%
Total liabilities	2,485,013	2,413,005	10,400	1,060	2,495,413	2,414,065	3.37%
Net assets:							
Invested in capital assets, net of related debt	2,319,200	2,486,026	12,399	15,446	2,331,599	2,501,472	-6.79%
Restricted	476,646	119,967	0	0	476,646	119,967	297.31%
Unrestricted	477,138	459,213	32,520	33,810	509,658	493,023	3.37%
Total net assets	\$ 3,272,984	3,065,206	44,919	49,256	3,317,903	3,114,462	6.53%

The District's combined net assets increased by 6.53%, or \$203,441, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$356,679, or 297.31% over the prior year. The increase was primarily a result of increases in fund balances by all of the District's governmental funds excluding the General Fund during fiscal 2007.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$16,635, or 3.37%. This increase in unrestricted net assets was a result of the District’s increase in the General Fund balance.

Figure A-4 shows the changes in total net assets for the years ended June 30, 2007 compared to the year ended June 30, 2006.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 243,867	239,157	68,235	72,278	312,102	311,435	0.21%
Operating grants and contributions and restricted interest	323,344	301,456	55,570	48,068	378,914	349,524	8.41%
General revenues:							
Property tax	1,012,155	927,659	0	0	1,012,155	927,659	9.11%
Local option sales and services tax	170,554	158,822	0	0	170,554	158,822	7.39%
Unrestricted state grants	1,191,937	1,152,018	0	0	1,191,937	1,152,018	3.47%
Other	33,813	53,338	173	173	33,986	53,511	-36.49%
Total revenues	2,975,670	2,832,450	123,978	120,519	3,099,648	2,952,969	4.97%
Program expenses:							
Governmental activities:							
Instructional	1,688,732	1,607,338	0	0	1,688,732	1,607,338	5.06%
Support services	799,535	953,195	0	0	799,535	953,195	-16.12%
Non-instructional programs	3,962	4,200	128,315	121,460	132,277	125,660	5.27%
Other expenses	275,663	329,680	0	0	275,663	329,680	-16.38%
Total expenses	2,767,892	2,894,413	128,315	121,460	2,896,207	3,015,873	-3.97%
Changes in net assets	207,778	(61,963)	(4,337)	(941)	203,441	(62,904)	423.42%
Net assets beginning of year	3,065,206	3,127,169	49,256	50,197	3,114,462	3,177,366	-1.98%
Net assets end of year	\$ 3,272,984	3,065,206	44,919	49,256	3,317,903	3,114,462	6.53%

Property tax and unrestricted state grants account for 74.07% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.86% of the revenue from business type activities.

The District’s total revenues were approximately \$3.10 million of which \$2.98 million was for governmental activities and approximately \$0.12 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 4.97% increase in revenues and a 3.97% decrease in expenses. The increase in revenues was due to increased local taxes and unrestricted state grant revenues the District received during fiscal 2007. The decrease in expenses was related to decreases in costs for support services expenses during the year.

Governmental Activities

Revenues for governmental activities were \$2,975,670 and expenses were \$2,767,892.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 1,688,732	1,607,338	5.06%	1,210,166	1,153,943	4.87%
Support services	799,535	953,195	-16.12%	798,707	951,205	-16.03%
Non-instructional	3,962	4,200	-5.67%	3,962	4,200	-5.67%
Other expenses	275,663	329,680	-16.38%	187,846	244,452	-23.16%
Totals	<u>\$ 2,767,892</u>	<u>2,894,413</u>	<u>-4.37%</u>	<u>2,200,681</u>	<u>2,353,800</u>	<u>-6.51%</u>

- The cost financed by users of the District's programs was \$243,867.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$323,344.
- The net cost of governmental activities was financed with \$1,012,155 in property tax, \$170,554 in local option sales and services tax, \$1,191,937 in unrestricted state grants and \$23,212 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$123,978 and expenses were \$128,315. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Elk Horn-Kimballton Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$886,681, above last year's ending fund balances of \$772,128. However, the primary reason for the increase in ending fund balances could be attributable to each of the governmental funds because each fund gained during fiscal 2007.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors. Increase in property tax and federal grant revenue resulted in an increase in revenues. The District's decrease in General Fund expenditures along with the increase in revenues ensured the increase in the financial position of the District.
- The Capital Projects fund balance increased from \$218,846 in 2006 to \$291,829, due to an increase in local option sales and services tax revenue. This fund also showed an increase in interest earned during the year because of the increased availability of funds to be invested by the District.

-
- The Management fund balance increased from \$54,840 to \$68,531. Although fund expenditures increased as compared to fiscal 2006, the increase in revenues was more than enough to offset the expenditure gain.
 - The Physical Plant and Equipment Levy (PPEL) fund balance increased from \$45,785 to \$56,372, due to increased revenues and lowered expenditures as compared to the previous year.
 - The Debt Service fund balance increased from \$25,617 in 2006 to \$26,796, due to anticipated payments of debt principal and interest.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$49,256 at June 30, 2006 to \$44,419 at June 30, 2007, representing a decrease of 8.81%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$18,651 less than budgeted revenues, a variance of less than 1%. The most significant variance resulted from the District receiving less in local source revenues than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$3.68 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 1.45% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$123,522.

The original cost of the District's capital assets was \$6,019,947. Governmental funds account for \$5,927,531 with the remainder of \$92,416 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the land improvements category. The District's land improvements totaled \$19,280 at June 30, 2006, compared to \$37,671 reported at June 30, 2007. This increase resulted from the tuckpointing project for the kitchen roof and the football field sprinkler system that was installed during fiscal 2007.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 75,000	75,000	0	0	75,000	75,000	0.00%
Buildings	3,490,221	3,551,251	0	0	3,490,221	3,551,251	-1.75%
Land improvements	37,671	19,280	0	0	37,671	19,280	48.82%
Machinery and equipment	66,308	74,956	12,399	15,446	78,707	90,402	-14.86%
Total	\$ 3,669,200	3,720,487	12,399	15,446	3,681,599	3,735,933	-1.45%

Long-Term Debt

At June 30, 2007, the District had long-term debt outstanding of \$1,366,632 in general obligation and other liabilities. This represents a decrease of 9.0% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had total outstanding general obligation bonds payable of \$1,350,000 at June 30, 2007.

The District also had total outstanding early retirement payable of \$16,632 to be paid out of the Special Revenue, Management Levy Fund at June 30, 2007.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2007	2006	2006-07
General obligation bonds	\$ 1,350,000	1,465,000	-7.8%
Early retirement	16,632	37,464	-55.6%
Total	\$ 1,366,632	1,502,464	-9.0%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Although the District has experienced declining enrollment for a few years, the District expects a slight increase in enrollment.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Tami Jacobsen, Board Secretary/Treasurer, Elk Horn-Kimballton Community School District, 4114 Madison Street, Elk Horn, Iowa, 51531.

BASIC FINANCIAL STATEMENTS

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 993,777	39,320	1,033,097
Receivables:			
Property tax:			
Delinquent	14,704	0	14,704
Succeeding year	886,212	0	886,212
Income surtax	96,509	0	96,509
Accounts	318	0	318
Due from other governments	97,277	0	97,277
Inventories	0	3,600	3,600
Capital assets, net of accumulated depreciation(Note 4)	3,669,200	12,399	3,681,599
TOTAL ASSETS	5,757,997	55,319	5,813,316
LIABILITIES			
Salaries and benefits payable	215,144	9,100	224,244
Interest payable	12,774	0	12,774
Deferred revenue:			
Succeeding year property tax	886,212	0	886,212
Other	4,251	0	4,251
Unearned revenue	0	1,300	1,300
Long-term liabilities(Note 5):			
Portion due within one year:			
General obligation bonds	120,000	0	120,000
Early retirement	16,632	0	16,632
Portion due after one year:			
General obligation bonds	1,230,000	0	1,230,000
TOTAL LIABILITIES	2,485,013	10,400	2,495,413
NET ASSETS			
Invested in capital assets, net of related debt	2,319,200	12,399	2,331,599
Restricted for:			
Beginning teacher mentoring	982	0	982
Additional teacher contract day	286	0	286
Market factor	2,214	0	2,214
Management levy	51,899	0	51,899
Physical plant and equipment levy	56,372	0	56,372
Capital projects	291,829	0	291,829
Debt service	26,796	0	26,796
Other special revenue purposes	46,268	0	46,268
Unrestricted	477,138	32,520	509,658
TOTAL NET ASSETS	\$ 3,272,984	44,919	3,317,903

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Govern- mental Activities	Business- Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 1,068,544	117,040	219,392	(732,112)	0	(732,112)
Special instruction	259,463	6,078	14,635	(238,750)	0	(238,750)
Other instruction	360,725	119,921	1,500	(239,304)	0	(239,304)
	<u>1,688,732</u>	<u>243,039</u>	<u>235,527</u>	<u>(1,210,166)</u>	<u>0</u>	<u>(1,210,166)</u>
Support services:						
Student services	150	0	0	(150)	0	(150)
Instructional staff services	98,958	0	0	(98,958)	0	(98,958)
Administration services	319,778	0	0	(319,778)	0	(319,778)
Operation and maintenance of plant services	258,924	0	0	(258,924)	0	(258,924)
Transportation services	121,725	828	0	(120,897)	0	(120,897)
	<u>799,535</u>	<u>828</u>	<u>0</u>	<u>(798,707)</u>	<u>0</u>	<u>(798,707)</u>
Non-instructional programs:						
Food service operations	3,962	0	0	(3,962)	0	(3,962)
Other expenditures:						
Facilities acquisitions	2,868	0	0	(2,868)	0	(2,868)
Long-term debt interest	82,391	0	0	(82,391)	0	(82,391)
AEA flowthrough	87,817	0	87,817	0	0	0
Depreciation(unallocated)*	102,587	0	0	(102,587)	0	(102,587)
	<u>275,663</u>	<u>0</u>	<u>87,817</u>	<u>(187,846)</u>	<u>0</u>	<u>(187,846)</u>
Total governmental activities	<u>2,767,892</u>	<u>243,867</u>	<u>323,344</u>	<u>(2,200,681)</u>	<u>0</u>	<u>(2,200,681)</u>
Business-Type activities:						
Support services:						
Administration services	355	0	0	0	(355)	(355)
Operation and maintenance of plant services	341	0	0	0	(341)	(341)
Non-instructional programs:						
Nutrition services	127,619	68,235	55,570	0	(3,814)	(3,814)
Total business-type activities	<u>128,315</u>	<u>68,235</u>	<u>55,570</u>	<u>0</u>	<u>(4,510)</u>	<u>(4,510)</u>
Total	<u>\$ 2,896,207</u>	<u>312,102</u>	<u>378,914</u>	<u>(2,200,681)</u>	<u>(4,510)</u>	<u>(2,205,191)</u>
General Revenues & Transfers:						
Property tax levied for:						
General purposes				\$ 814,948	0	814,948
Debt services				133,842	0	133,842
Capital outlay				63,365	0	63,365
Local option sales and service tax				170,554	0	170,554
Unrestricted state grants				1,191,937	0	1,191,937
Unrestricted investment earnings				23,212	173	23,385
Other				21,673	0	21,673
Transfers				(11,072)	0	(11,072)
Total general revenues				<u>2,408,459</u>	<u>173</u>	<u>2,408,632</u>
Changes in net assets				207,778	(4,337)	203,441
Net assets beginning of year				<u>3,065,206</u>	<u>49,256</u>	<u>3,114,462</u>
Net assets end of year				<u>\$ 3,272,984</u>	<u>44,919</u>	<u>3,317,903</u>

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments	\$ 575,414	224,084	194,279	993,777
Receivables:				
Property tax				
Delinquent	11,016	0	3,688	14,704
Succeeding year	668,018	0	218,194	886,212
Income surtax	64,339	0	32,170	96,509
Accounts	318	0	0	318
Due from other governments	29,532	67,745	0	97,277
TOTAL ASSETS	\$ 1,348,637	291,829	448,331	2,088,797
LIABILITIES AND FUND BALANCES				
Liabilities:				
Salaries and benefits payable	\$ 215,144	0	0	215,144
Deferred revenue:				
Succeeding year property tax	668,018	0	218,194	886,212
Income surtax	64,339	0	32,170	96,509
Other	4,251	0	0	4,251
Total liabilities	951,752	0	250,364	1,202,116
Fund balances:				
Reserved for:				
Debt service	0	0	26,796	26,796
Beginning teacher mentoring	982	0	0	982
Additional teacher contract day	286	0	0	286
Market factor	2,214	0	0	2,214
Unreserved:				
Undesignated	393,403	291,829	171,171	856,403
Total fund balances	396,885	291,829	197,967	886,681
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,348,637	291,829	448,331	2,088,797

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2007

Total fund balances of governmental funds (page 16)	\$ 886,681
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	3,669,200
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(12,774)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	96,509
Long-term liabilities, including bonds payable and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(1,366,632)
Net assets of governmental activities (page 14)	<u><u>\$ 3,272,984</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 742,423	170,554	262,202	1,175,179
Tuition	109,082	0	0	109,082
Other	41,055	6,679	133,436	181,170
State sources	1,416,868	0	206	1,417,074
Federal sources	96,707	0	0	96,707
Total revenues	2,406,135	177,233	395,844	2,979,212
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	1,073,229	0	6,459	1,079,688
Special instruction	259,463	0	0	259,463
Other instruction	236,570	0	124,155	360,725
	1,569,262	0	130,614	1,699,876
Support services:				
Student services	150	0	0	150
Instructional staff services	98,958	0	0	98,958
Administration services	319,778	0	6,459	326,237
Operation and maintenance of plant services	198,846	0	65,455	264,301
Transportation services	105,474	0	5,455	110,929
	723,206	0	77,369	800,575
Non-instructional programs:				
Food service operations	0	0	3,962	3,962
Other expenditures:				
Facilities acquisitions	0	39,250	23,566	62,816
Long-term debt:				
Principal	0	0	115,000	115,000
Interest and fiscal charges	0	0	83,541	83,541
AEA flowthrough	87,817	0	0	87,817
	87,817	39,250	222,107	349,174
Total expenditures	2,380,285	39,250	434,052	2,853,587
Excess(deficiency) of revenues over(under) expenditures	25,850	137,983	(38,208)	125,625
Other financing sources(uses):				
Transfers in	0	0	65,000	65,000
Transfers out	0	(65,000)	(11,072)	(76,072)
Total other financing sources(uses)	0	(65,000)	53,928	(11,072)
Net change in fund balances	25,850	72,983	15,720	114,553
Fund balance beginning of year	371,035	218,846	182,247	772,128
Fund balance end of year	\$ 396,885	291,829	197,967	886,681

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds (page 18) \$ 114,553

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlays expenditures and depreciation expense in the current year, is as follows:

Capital expenditures	\$ 69,188	
Depreciation expense	<u>(120,475)</u>	(51,287)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 115,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 1,150

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 7,530

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

Early retirement	<u>20,832</u>
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Changes in net assets of governmental activities (page 15) \$ 207,778

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	<u>School Nutrition</u>
ASSETS	
Cash and cash equivalents	\$ 39,320
Inventories	3,600
Capital assets, net of accumulated depreciation(Note 4)	<u>12,399</u>
TOTAL ASSETS	<u>55,319</u>
LIABILITIES	
Salaries and benefits payable	9,100
Unearned revenues	<u>1,300</u>
TOTAL LIABILITES	<u>10,400</u>
NET ASSETS	
Invested in capital assets	12,399
Unrestricted	<u>32,520</u>
TOTAL NET ASSETS	<u>\$ 44,919</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 68,235
OPERATING EXPENSES:	
Support services:	
Administration services:	
Services	355
Operation and maintenance of plant services:	
Services	341
Total support services:	<u>696</u>
Non-instructional programs:	
Food service operations:	
Salaries	42,326
Benefits	17,714
Services	1,484
Supplies	63,046
Depreciation	3,047
Other	<u>2</u>
Total non-instructional programs	<u>127,619</u>
TOTAL OPERATING EXPENSES	<u>128,315</u>
OPERATING LOSS	<u>(60,080)</u>
NON-OPERATING REVENUES:	
Interest income	173
State sources	1,804
Federal sources	53,766
TOTAL NON-OPERATING REVENUES	<u>55,743</u>
Change in net assets	(4,337)
Net assets at beginning of year	<u>49,256</u>
Net assets end of year	<u>\$ 44,919</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 66,769
Cash received from miscellaneous operating activities	1,706
Cash payments to employees for services	(50,940)
Cash payments to suppliers for goods or services	(53,614)
Net cash used in operating activities	<u>(36,079)</u>
Cash flows from non-capital financing activities:	
State grants received	1,804
Federal grants received	43,923
Net cash provided by non-capital financing activities	<u>45,727</u>
Cash flows from investing activities:	
Interest on investments	<u>173</u>
Net increase in cash and cash equivalents	9,821
Cash and cash equivalents at beginning of year	<u>29,499</u>
Cash and cash equivalents at end of year	<u>\$ 39,320</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (60,080)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	9,843
Depreciation	3,047
Decrease in inventories	1,771
Increase in salaries and benefits payable	9,100
Increase in unearned revenue	240
Net cash used in operating activities	<u>\$ (36,079)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 39,320</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received
Federal commodities valued at \$9,843.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 JUNE 30, 2007

	Private Purpose Trust Scholarship	Agency
ASSETS		
Cash and pooled investments	\$ 377,888	18,895
TOTAL ASSETS	<u>377,888</u>	<u>18,895</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Due to other groups	<u>0</u>	<u>18,895</u>
Net assets:		
Reserved for scholarships	377,888	0
TOTAL NET ASSETS	<u>\$ 377,888</u>	<u>0</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2007

	Private Purpose Trust Scholarship
ADDITIONS:	
Local sources:	
Interest income	\$ 20,277
Donations	568
TOTAL ADDITIONS	<u>20,845</u>
DEDUCTIONS:	
Instruction:	
Scholarship awarded	<u>18,500</u>
Excess of revenues over expenditures	2,345
Other financing sources:	
Transfer in	<u>11,072</u>
Change in net assets	13,417
Net assets beginning of year	<u>364,471</u>
Net assets end of year	<u><u>\$ 377,888</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

(1) Summary of Significant Accounting Policies

The Elk Horn-Kimballton Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Elk Horn and Kimballton, Iowa, and the predominate agricultural territory in Cass, Audubon and Shelby Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Elk Horn-Kimballton Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Elk Horn-Kimballton Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Cass, Audubon and Shelby County Assessors' Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District's proprietary fund is the School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of result of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB

pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,500
Buildings	1,500
Land improvements	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue

consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2007, the District had no investments.

(3) Transfers

The detail of transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 65,000
Private-Purpose Trust	Special Revenue, Expendable Trust	11,072
Total		<u>\$ 76,072</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 75,000	0	0	75,000
Total capital assets not being depreciated	75,000	0	0	75,000
Capital assets being depreciated:				
Buildings	5,064,894	39,250	0	5,104,144
Land improvements	25,430	20,698	0	46,128
Machinery and equipment	761,914	9,240	68,895	702,259
Total capital assets being depreciated	5,852,238	69,188	68,895	5,852,531
Less accumulated depreciation for:				
Buildings	1,513,643	100,280	0	1,613,923
Land improvements	6,150	2,307	0	8,457
Machinery and equipment	686,958	17,888	68,895	635,951
Total accumulated depreciation	2,206,751	120,475	68,895	2,258,331
Total capital assets being depreciated, net	3,645,487	(51,287)	0	3,594,200
Governmental activities capital assets, net	\$ 3,720,487	(51,287)	0	3,669,200
Business-type activities:				
Machinery and equipment	\$ 92,416	0	0	92,416
Less accumulated depreciation	76,970	3,047	0	80,017
Business-type activities capital assets, net	\$ 15,446	(3,047)	0	12,399

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 4,930
Support services:	
Operation and maintenance of plant	2,162
Transportation	10,796
	<u>17,888</u>
Unallocated depreciation	<u>102,587</u>
Total governmental activities depreciation expense	<u>\$ 120,475</u>
Business-type activities:	
Food services	<u>\$ 3,047</u>

(5) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2007 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 1,465,000	0	115,000	1,350,000	120,000
Early retirement	37,464	0	20,832	16,632	16,632
Total	<u>\$ 1,502,464</u>	<u>0</u>	<u>135,832</u>	<u>1,366,632</u>	<u>136,632</u>

General Obligation

Details of the District's June 30, 2007 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Bond issue dated May 1, 2000 Interest Rate	Principal	Interest	Total
2008	6.000 % \$	120,000	76,641	196,641
2009	6.000	130,000	69,441	199,441
2010	5.625	105,000	61,641	166,641
2011	5.300	75,000	55,735	130,735
2012	5.400	80,000	51,760	131,760
2013	5.500	85,000	47,440	132,440
2014	5.600	90,000	42,765	132,765
2015	5.600	95,000	37,725	132,725
2016	5.600	100,000	32,405	132,405
2017	5.600	110,000	26,805	136,805
2018	5.700	115,000	20,645	135,645
2019	5.700	120,000	14,090	134,090
2020	5.800	125,000	7,250	132,250
Total		<u>\$ 1,350,000</u>	<u>544,343</u>	<u>1,894,343</u>

Early Retirement

The District offers a voluntary early retirement plan to its full-time employees. Eligible employees must be at least age fifty-five and must have completed fifteen years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives paid by the District include the premiums for a single health insurance coverage policy, with a maximum of \$350 per month.

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$81,251, \$84,237, and \$76,680 respectively, equal to the required contributions for each year.

(7) Risk Management

The District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, life and long-term disability. District contributions to ISEBA for the year ended June 30, 2007 were \$249,552.

Elk Horn-Kimballton Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$87,817 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 1,465,431	68,408	1,533,839	1,549,310	1,549,310	(15,471)
Intermediate sources	0	0	0	8,500	8,500	(8,500)
State sources	1,417,074	1,804	1,418,878	1,423,531	1,423,531	(4,653)
Federal sources	96,707	53,766	150,473	140,500	140,500	9,973
Total revenues	2,979,212	123,978	3,103,190	3,121,841	3,121,841	(18,651)
Expenditures:						
Instruction	1,699,876	0	1,699,876	1,715,000	1,715,000	15,124
Support services	800,575	696	801,271	1,148,000	1,148,000	346,729
Non-instructional programs	3,962	127,619	131,581	236,000	236,000	104,419
Other expenditures	349,174	0	349,174	391,689	391,689	42,515
Total expenditures	2,853,587	128,315	2,981,902	3,490,689	3,490,689	508,787
Excess(deficiency) of revenues over(under) expenditures	125,625	(4,337)	121,288	(368,848)	(368,848)	490,136
Other financing sources, net	(11,072)	0	(11,072)	0	0	(11,072)
Excess(deficiency) of revenues and other financing sources over(under) expenditures	114,553	(4,337)	110,216	(368,848)	(368,848)	479,064
Balance beginning of year	772,128	49,256	821,384	913,702	913,702	(92,318)
Balance end of year	\$ 886,681	44,919	931,600	544,854	544,854	386,746

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

OTHER SUPPLEMENTARY INFORMATION

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2007

	Special Revenue Funds					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	Other Nonmajor Governmental Funds
ASSETS						
Cash and pooled investments	\$ 67,454	46,268	55,968	169,690	24,589	194,279
Receivables:						
Property tax:						
Current year delinquent	1,077	0	404	1,481	2,207	3,688
Succeeding year	60,000	0	24,672	84,672	133,522	218,194
Income surtax	0	0	32,170	32,170	0	32,170
TOTAL ASSETS	\$ 128,531	46,268	113,214	288,013	160,318	448,331
LIABILITIES AND FUND BALANCES						
Liabilities:						
Deferred revenue:						
Succeeding year property tax	\$ 60,000	0	24,672	84,672	133,522	218,194
Income surtax	0	0	32,170	32,170	0	32,170
	60,000	0	56,842	116,842	133,522	250,364
Fund balances:						
Reserved:						
Debt service	0	0	0	0	26,796	26,796
Unreserved:						
Undesignated	68,531	46,268	56,372	171,171	0	171,171
Total fund balances	68,531	46,268	56,372	171,171	26,796	197,967
TOTAL LIABILITIES AND FUND BALANCES	\$ 128,531	46,268	113,214	288,013	160,318	448,331

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2007

	Special Revenue Fund						Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
REVENUES:							
Local sources:							
Local tax	\$ 64,995	0	63,365	0	128,360	133,842	262,202
Other	5,919	125,490	1,273	0	132,682	754	133,436
State sources	59	0	23	0	82	124	206
TOTAL REVENUES	70,973	125,490	64,661	0	261,124	134,720	395,844
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	6,459	0	0	0	6,459	0	6,459
Other instruction	0	124,155	0	0	124,155	0	124,155
Support services:							
Administration services	6,459	0	0	0	6,459	0	6,459
Operation and maintenance of plant services	34,947	0	30,508	0	65,455	0	65,455
Transportation services	5,455	0	0	0	5,455	0	5,455
Non-instructional							
Food service operations	3,962	0	0	0	3,962	0	3,962
Other expenditures:							
Facilities acquisition	0	0	23,566	0	23,566	0	23,566
Long-term debt:							
Principal	0	0	0	0	0	115,000	115,000
Interest and fiscal charges	0	0	0	0	0	83,541	83,541
TOTAL EXPENDITURES	57,282	124,155	54,074	0	235,511	198,541	434,052
Excess(deficiency) of revenues over(under) expenditures	13,691	1,335	10,587	0	25,613	(63,821)	(38,208)
Other financing sources(uses):							
Transfers in	0	0	0	0	0	65,000	65,000
Transfers out	0	0	0	(11,072)	(11,072)	0	(11,072)
Total other financing sources(uses)	0	0	0	(11,072)	(11,072)	65,000	53,928
Excess(deficiency) of revenues and other financing sources(uses) over(under) expenditures	13,691	1,335	10,587	(11,072)	14,541	1,179	15,720
Fund balance beginning of year	54,840	44,933	45,785	11,072	156,630	25,617	182,247
Fund balance end of year	\$ 68,531	46,268	56,372	0	171,171	26,796	197,967

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Speech/drama	\$ 1,979	1,939	250	3,668
Vocal music	766	45	403	408
Instrumental music	816	1,321	1,191	946
Athletics	24,095	8,476	3,033	29,538
Boys/girls golf	0	1,479	1,479	0
Boys basketball	0	9,453	9,453	0
Football	0	7,087	7,087	0
Baseball	0	3,661	3,661	0
Boys track	0	2,540	2,540	0
Wrestling	0	2,087	2,087	0
Girls basketball	0	4,463	4,463	0
Volleyball	0	6,072	6,072	0
Softball	0	2,178	2,178	0
Girls track	0	1,370	1,370	0
Interest	346	0	346	0
Change	100	0	0	100
8th grade	9	92	101	0
Freshman class	28	9	28	9
Sophomore class	10	28	10	28
Junior class	789	8,691	9,067	413
Senior class	0	3,713	3,713	0
Science club	170	0	0	170
Elementary special education	19	20	0	39
Book fair	552	1,003	1,003	552
Projects	4,738	0	4,738	0
M.S. TAG	157	0	0	157
DC trip account	109	373	0	482
Art club	281	206	373	114
Annual	1,897	7,435	6,990	2,342
Cheerleaders	853	5,658	6,463	48
FFA	2,430	21,374	19,899	3,905
National honor society	384	0	141	243
Student council	2,553	2,042	2,083	2,512
Elementary student council	588	728	1,166	150
Leadership	1,044	714	1,534	224
Elementary resale	0	3,901	3,901	0
Athletic concession	0	12,258	12,258	0
District football	220	0	0	220
Preschool	0	5,074	5,074	0
Total	\$ 44,933	125,490	124,155	46,268

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 YEAR ENDED JUNE 30, 2007

	Balance			Balance
	Beginning			End
	of Year	Additions	Deletions	of Year
Washington DC Trip				
ASSETS:				
Cash and pooled investments	\$ 34,308	25,042	40,455	18,895
LIABILITIES:				
Due to other groups	\$ 34,308	25,042	40,455	18,895

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$	1,175,179	1,086,481	1,072,688	1,075,598
Tuition		109,082	82,357	71,362	64,620
Other		181,170	213,359	172,011	189,199
Intermediate sources		0	0	3,654	3,724
State sources		1,417,074	1,352,854	1,293,271	1,258,812
Federal sources		96,707	97,399	93,308	142,586
Total	\$	2,979,212	2,832,450	2,706,294	2,734,539
Expenditures:					
Instruction:					
Regular instruction	\$	1,079,688	956,796	896,033	1,041,208
Special instruction		259,463	162,069	224,310	200,496
Other instruction		360,725	490,688	413,418	316,805
Support services:					
Student services		150	41,975	48,006	49,912
Instructional staff services		98,958	116,993	128,037	51,224
Administration services		326,237	413,472	345,495	320,360
Operation and maintenance of plant services		264,301	248,328	243,046	234,692
Transportation services		110,929	111,328	165,618	90,764
Other support services		0	0	6,927	21,345
Non-instructional programs:					
Food service operations		3,962	4,200	6,702	6,156
Other expenditures:					
Facilities acquisitions		62,816	60,005	22,093	42,191
Long Term Debt:					
Principal		115,000	110,000	100,000	95,000
Interest		83,541	90,541	96,141	101,841
AEA flow-through		87,817	85,228	84,404	86,147
Total	\$	2,853,587	2,891,623	2,780,230	2,658,141

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
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Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Elk Horn-Kimballton Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Elk Horn-Kimballton Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 3, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Elk Horn-Kimballton Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Elk Horn-Kimballton Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Elk Horn-Kimballton Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Elk Horn-Kimballton Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Elk Horn-Kimballton Community School District's financial statements that is more than inconsequential will not be prevented or detected by Elk Horn-Kimballton Community School District's internal control. We consider the deficiencies in internal control described in Part I of the Findings Related to the General Purpose Financial Statements.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Elk Horn-Kimballton Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Elk Horn-Kimballton Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Elk Horn-Kimballton Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Elk Horn-Kimballton Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Elk Horn-Kimballton Community School District and other parties to whom Elk Horn-Kimballton Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Elk Horn-Kimballton Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

March 3, 2008

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

I-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

I-B-07 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In order to comply with Department of Labor requirements on wage per hour contracts, the District needs to keep track of hours worked by coaches who are non-certified staff to determine if they are paid at least minimum wage.

Response - Hour sheets have been given to non-certified staff who also coach. Records of hours worked will be kept on file in the superintendent's office.

Conclusion - Response accepted.

I-C-07 Payroll Procedures - We noted during our audit that the District was not filing quarterly payroll reports on a timely basis.

Recommendation - The District should review payroll procedures and make sure that all reports are filed timely to avoid any penalties.

Response - In the future, quarterly reports will be filed in a timely fashion. We did appeal the decision and the penalty for the late filing was reduced.

Conclusion - Response accepted.

I-D-07 Student Activity Fund - During our audit, we noted that Target Donations and Lifetouch picture commissions were being receipted into the Student Activity Fund.

Recommendation - Donations from Target do not specify the purpose, other than instructional supplies; therefore, they should be receipted into the General Fund for use in all instructional supplies/services.

Any commissions received by the District can only be receipted to the General Fund; therefore, in the future the District should place Lifetouch commissions as well as any other commissions into the General Fund.

Response - Target donations as well as Lifetouch picture commissions will be deposited into the General Fund.

Conclusion - Response accepted.

I-E-07 Corrective Transfer - During our audit, we noted that the District paid for mowing of grounds for the year in the amount of \$6,261.70 from the Physical Plant and Equipment Levy Fund.

Recommendation - According to Chapter 9 of the LEA Manual, Physical Plant and Equipment Levy moneys can be only expended for the purchase and improvement of grounds. Mowing of the grounds is not considered an improvement, but rather, routine maintenance. Therefore, the mowing expense should have been paid from the General Fund.

The District should make a corrective transfer from the General Fund to the Physical Plant and Equipment Levy Fund for the \$6,261.70 mowing expense.

Response - The corrective transfer had been made before the Certified Annual Report was uploaded to the state.

Conclusion - Response accepted.

ELK HORN-KIMBALLTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting

- II-A-07 Certified Budget - District disbursements for the year ended June 30, 2007, did not exceed the amount budgeted.
- II-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-07 Business Transactions - No business transactions between the District and District officials were noted.
- II-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-07 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.